CAPITEC BANK HOLDINGS LIMITED
Registration number: 1999/025903/06
Registered bank controlling company
Incorporated in the Republic of South Africa
JSE ordinary share code: CPI **ISIN:** ZAE000035861
JSE preference share code: CPIP **ISIN:** ZAE000083838

Unaudited financial results for the six months ended 31 August 2011

- **Headline earnings per share up 53% to 520 cents**
- **Earnings up by 72%**
- **Interim dividend per share 125 cents**
- **Return on equity 29%**
- **Active clients 3.2 million**

		Six months ended August 2011	Six months ended August 2010	Growth %	Year ended February 2011
Profitability					
Income from banking operations	R'm	2 581	1 696	52	3 741
Net loan impairment expense	R'm	(679)	(403)	68	(988)
Banking operating expenses	R'm	(1 183)	(873)	36	(1 813)
Non-banking operations	R'm	–	–	–	–
Tax	R'm	(221)	(131)	69	(284)
Preference dividend	R'm	(10)	(6)	67	(16)
Earnings attributable to ordinary shareholders					
Basic	R'm	488	283	72	640
Headline	R'm	489	284	72	640
Cost to income ratio – banking activities	%	46	51		48
Return on ordinary shareholders' equity	%	29	34		34
Earnings per share					
Attributable	cents	518	339	53	757
Headline	cents	520	340	53	757
Diluted attributable	cents	505	325	55	730
Diluted headline	cents	507	327	55	730
Dividends per share					
Interim	cents	125	85	47	85
Final	cents				205
Total	cents				290
Dividend cover	X	4.2	4.0		2.6
Assets					
Net loans and advances	R'm	13 393	7 244	85	10 071
Cash and cash equivalents	R'm	3 248	2 086	56	2 842
Investments	R'm	908	1 199	(24)	989
Other	R'm	676	468	44	538
Total assets	R'm	18 225	10 997	66	14 440

		Six months ended August 2011	Six months ended August 2010	Growth %	Year ended February 2011
Liabilities					
Deposits	R'm	13 678	8 599	59	10 450
Other	R'm	721	463	56	539
Total liabilities	R'm	14 399	9 062	59	10 989
Equity					
Shareholders' funds	R'm	3 826	1 935	98	3 451
Capital adequacy ratio	%	35	35		41
Net asset value per ordinary share	cents	3 772	2 117	78	3 418
Share price	cents	18 845	13 350	41	15 901
Market capitalisation	R'm	17 819	11 230	59	14 850
Number of shares in issue	'000	94 554	84 122	12	93 388
Share options					
Number outstanding	'000	3 233	4 932	(34)	4 222
Number outstanding to shares in issue	%	3	6		5
Average strike price	cents	4 283	3 470	23	3 510
Average time to maturity	months	21	25	(16)	20
Operations					
Branches		474	422	12	455
Employees		6 351	4 726	34	5 331
Active clients	'000	3 247	2 494	30	2 829
ATMs					
Own		507	439	15	479
Partnership		1 356	939	44	1 182
Capital expenditure	R'm	203	145	40	235
Sales					
Loans					
Value of loans advanced	R'm	9 226	6 385	44	14 318
Number of loans advanced	'000	3 354	2 615	28	5 471
Average loan amount	R	2 751	2 442	13	2 617
Repayments	R'm	7 566	5 602	35	12 117
Gross loans and advances	R'm	14 495	7 796	86	10 916
Loans past due (arrears)	R'm	649	361	80	626
Arrears to gross loans and advances	%	4.5	4.6		5.7
Provision for doubtful debts	R'm	1 102	552	100	845
Provision for doubtful debts to gross loans and advances	%	7.6	7.1		7.7
Arrears coverage ratio	%	170	153		135
Loan revenue	R'm	2 596	1 728	50	3 800
Loan revenue to average gross loans and advances	%	20.4	25.8		46.0
Gross loan impairment expense	R'm	755	447	69	1 088
Recoveries	R'm	76	44	73	100
Net loan impairment expense	R'm	679	403	68	988
Net loan impairment expense to loan revenue	%	26.2	23.3		26.0
Net loan impairment expense to average gross loans and advances	%	5.3	6.0		12.0
Deposits					
Wholesale	R'm	5 454	3 608	51	3 954
Retail call savings	R'm	4 963	3 040	63	3 933
Retail fixed savings	R'm	3 125	1 874	67	2 316
Net transaction fee income	R'm	361	235	54	532

Simplicity delivered transparently gives control

Capitec's unique positioning and innovative approach to retail banking gives clients control through transparent pricing and simplified products. This approach has seen the number of active clients banking with Capitec grow to 3.2 million.

Capitec's retail footprint increased by 19 branches and 202 ATMs since February 2011 and another 36 new branches are planned for the remainder of the financial year.

Increases in loan revenue to R2.6 billion and net transaction fee income to R361 million, along with an improvement in the cost to income ratio to 46%, resulted in earnings of R488 million, a 72% year-on-year increase.

Transacting services

Net transaction fee income up 54% to R361 million

The market's perception of South African banks, according to research conducted by Finscope, is that technology and forms are complex, queues are long and banking is expensive.

The reality is that clients want to feel that they have control over their financial situation and they want their money to grow.

Capitec Bank is uniquely positioned to provide for the everyday banking needs of every South African. Smaller branches with extended trading hours positioned to ensure easier access provide unique service to clients. Transacting is simplified and paperless. The product offering is easy to understand, transaction charges are low and clients receive a return on their savings from the first cent.

Acceptance of the Capitec solution is reflected in the increase in active clients and growth in net transaction fee income to R361 million (August 2010: R235 million; February 2011: R297 million).

The growth in fee income exceeded growth in client numbers. The number of clients using stop orders, debit orders and transfers grew by 47% year-on-year and by 26% compared to the six months ended February 2011. Clients using these transactions are also each doing a larger number of transactions, therefore the fee income per client increased, despite the bank not increasing these fees this year.

Income from the operation of card machines at retailers has shown satisfactory growth in line with the 71% increase in devices in operation since August 2010.

Transaction fee expenses, which include interchange and switch fees on ATM and point-of-sale transactions, increased by less than gross transaction fee income and totalled R230 million.

Net transaction fee income covered 31% of banking operating expenses (August 2010: 27%). The target of 40% is in sight.

Lending services

Loans advanced increased by 44% year-on-year to R9.2 billion

The South African unsecured lending market has continued to grow in 2011. Credit disbursed during the first quarter grew by 55% to R28.5 billion. This growth is within our expectations and meets the objective of the National Credit Act to make credit available to consumers that did not have access to credit prior to June 2007. In this growing market Capitec's market share grew to 20% (first quarter 2010: 16%).

Consumers' appetite for credit is expected to remain high as the demand for formal housing and durable goods in an increasingly urbanised market continues to grow. A September 2011 press release by the National Credit Regulator indicated that enquiries on consumer credit records increased by 25.3% quarter-on-quarter and by 85% year-on-year for the second quarter of 2011.

Market conditions have led to continual increases in the term and value of unsecured credit offered during the past 18 months. Since our 60-month product launched in December 2010 it has contributed R3.0 billion in sales. Loan products with terms of 12 months and longer now contribute 70% of total sales (August 2010: 62%).

Despite the growth trend in the unsecured credit market it is still a relatively new and unsophisticated market. For this reason we explore the opportunities presented by the current appetite for credit cautiously in order to maintain a conservative risk profile and ensure that clients are not over-indebted.

Arrears as a percentage of gross loans and advances down to 4.5%

The 86% year-on-year growth in our loan book to R14.5 billion was achieved while maintaining the quality of the book. Loan book quality is managed intensively and this constant focus means that trends are swiftly identified and addressed.

Growth in the total loan book is expected to continue but should stabilise as the loan books of our newer products mature.

The current appetite for credit along with the introduction of longer-term products has increased the level of loan consolidations within the market and this has further contributed to the increase in the average duration of loans. The average term of loans advanced during the past six months was 31 months (August 2010: 21 months). Loans with terms of 12 months or longer now comprise 95% of our total loan book (August 2010: 92%).

Strict monitoring of the loan book limited arrears at the end of August to 4.5% of the loan book (August 2010: 4.6%; February 2011: 5.7%).

The provision for doubtful debts as a percentage of the gross loan book is 7.6% (August 2010: 7.1%; February 2011: 7.7%). The increase compared to August 2010 is attributable to the provisioning on the 60-month loan product, which is only 9 months old. The decrease compared to February 2011 is in line with the decrease in arrears.

Net loan impairment expense increased by 68% but is down to 5.3% of average gross loans and advances
The net loan impairment charge grew by 68% year-on-year and amounted to R679 million. The net charge includes recoveries of R76 million which increased by 73% year-on-year.

Our policy is to write off a client's full outstanding loan balance if any payment is in arrears for more than 90 days.

The gross loan impairment expense (before recoveries) grew year-on-year by R308 million compared to book growth of R6.7 billion and by R114 million compared to the six months ended February 2011. The table below analyses the increases:

Change compared to the six months ended	February 2011 R'm	August 2010 R'm
Book growth	190	346
Improvement in book quality	(55)	(27)
Increased valuation of handed over book	(21)	(11)
Total	114	308

The net loan impairment expense as a percentage of average loans and advances decreased to 5.3% (August 2010: 6.0%; February 2011: 6.3%).

The net impairment expense includes higher provisioning on the new and growing loan books of the longer-term products. Although the 48 and 60-month loan products are only extended to low risk clients and the performance of theseloan books is better than the more mature 36-month loan product, prudent provisioning assumptions are applied. This is because the impact of a missed instalment on a longer-term loan is more severe at the beginning of the loan repayment period, as the full loan amount may be at risk. The rate of provisioning on new loan products exceeds the rate at which income is recognised at the beginning of the term of the loans.

Loan revenue up by 50% year-on-year to R2.6 billion
Interest income increased by 53% year-on-year to R1.9 billion (August 2010: R1.3 billion; February 2011: R1.5 billion). The increase is mainly attributable to the annuity impact of longer-term loans despite decreasing yields due to a 1.5% decrease in the repo rate during the past 18 months.

Loan fee income increased by 35% year-on-year and by 23% compared to the six months ended February 2011 to R820 million. Loan fee income consists of origination fees and monthly administration fees. These fees were positively impacted by the year-on year increase of 28% in the number of loans advanced.

The loan fee expense which represents the credit life and retrenchment insurance cost borne by the bank for the benefit of its clients increased to R96 million (August 2010: R60 million) due to the growth in the gross loan book.

Cost structure

Cost to income ratio down to 46%
The cost to income ratio of banking activities improved to 46% from 51% for the six months ended August 2010.

The addition of 52 branches to the network and the increase in branch and support employees to 6 351 from 4 726 contributed to the 36% year-on-year increase in banking operating expenses.

Employment, premises, information technology, cash-handling and marketing costs remain the major components of operating expenditure.

The contribution of employment costs to total operating expenditure decreased by 2% year-on-year to 53% which is consistent with the six months ended February 2011. Employment costs contributed R150 million to the year-on-year increase in operating expenditure.

The cost of incentive schemes included in employment costs is reflected in the table below:

Cost for the six months ended	August 2011 R'm	February 2011 R'm	August 2010 R'm
Share appreciation rights	76	57	64
Share options	6	6	6
Senior management (excluding strategic management) performance bonus	16	4	13
Staff performance bonus	61	19	53
Total	159	86	136

There have been no changes to the incentive schemes since August 2009. Share appreciation rights are cash-settled and the expense fluctuates according to the Capitec share price. Share options are equity-settled and the expense is therefore not subject to share price fluctuations. The senior management performance scheme and the staff performance bonus scheme are based on growth in headline earnings per share.

Funding and liquidity

Retail funding remained on target at 60% of total funding

Retail call savings grew by 63% year-on-year to R5.0 billion. Growth resulted from increased client numbers and a year-on-year increase of 16% in the average savings balance per client.

Retail fixed savings grew by 67% year-on-year (February 2011: 35%) and remains an attractive source of funding due to the lower cost. Retail fixed savings totalled R3.1 billion at the end of August 2011 and comprised 36% of total term funding (August 2010: 34%; February 2011: 37%).

The issuance of two bonds amounting to R1.3 billion under the Domestic Medium Term Note Programme in May 2011 contributed to a year-on-year increase of 51% in wholesale funding to R5.5 billion. Capital repayments amounting to R490 million on the first two bonds issued in terms of this programme were made in May 2011.

The remainder of the increase in wholesale funding relates to corporate paper issued. Funding through corporate paper increased to R1.6 billion at the end of August 2011 (August 2010: R594 million; February 2011: R842 million).

The funding strategy, as Capitec's profile in the market continues to improve, has been to match the duration of assets and liabilities. This translated into the utilisation of funding instruments with more varied maturities.

Liquidity management remained conservative

Retail call and fixed savings deposits increased substantially, in line with the growth of the loan book. Despite difficult economic conditions, the bank has not experienced any volatility in its call savings base and on average 41% of maturing fixed deposits are re-invested within two weeks.

The management of liquidity continues to take preference over the optimisation of profitability and Capitec already complies with the two new Basel 3 liquidity ratios: the liquidity coverage ratio and the net stable funding ratio.

Capital

Return on equity at 29%

The return on ordinary shareholders' equity remains well above target, despite decreasing year-on-year (August 2010: 34%) as a result of an increase of R1.1 billion in equity after a rights offer in January 2011. The impact of the additional equity on the return on equity was softened by the 72% year-on-year increase in earnings.

The risk-weighted capital adequacy ratio is 35% and the prior period ratios were restated in line with standard Basel practice. We continuously review the need for additional capital. The disclosure in terms of Regulation 43 of the Banks' Act is available on the Capitec Bank website.

Prospects

Innovation is in our blood and will continue. Persistent focus should maintain our success.

Interim dividend

The directors approved an interim ordinary dividend of 125 cents per share on Tuesday 27 September 2011. The dividend will be payable on Monday 5 December 2011.

Last day to trade cum dividend	Friday 25 November 2011
Trading ex-dividend commences	Monday 28 November 2011
Record date	Friday 2 December 2011
Payment date	Monday 5 December 2011

Share certificates may not be dematerialised or rematerialised between Monday 28 November 2011 and Friday 2 December 2011, both days inclusive.

Group balance sheet

	Unaudited August 2011 R'000	2010 R'000	Growth %	Audited February 2011 R'000
Assets				
Cash and cash equivalents	3 247 637	2 085 502	56	2 841 918
Investments designated at fair value	907 945	1 199 274	(24)	988 664
Loans and advances to clients	13 393 174	7 244 385	85	10 071 466
Inventory	23 503	22 697	4	30 847
Other receivables	53 717	37 159	45	48 177
Property and equipment	479 977	357 073	34	375 185
Intangible assets	54 422	32 854	66	34 357
Deferred income tax assets	64 546	17 848	262	48 903
Total assets	18 224 921	10 996 792	66	14 439 517
Liabilities				
Loans and deposits at amortised cost	13 678 188	8 599 271	59	10 449 883
Trade and other payables	616 178	422 358	46	489 685
Current income tax liabilities	88 681	28 312	213	35 033
Provisions	16 356	11 693	40	14 403
Total liabilities	14 399 403	9 061 634	59	10 989 004
Equity				
Ordinary share capital and premium	2 123 125	796 852	166	1 918 677
Cash flow hedge reserve	(6 712)	(10 882)	(38)	(3 469)
Retained earnings	1 450 136	994 582	46	1 276 336
Share capital and reserves attributable to ordinary shareholders	3 566 549	1 780 552	100	3 191 544
Non-redeemable, non-cumulative, non-participating preference share capital and premium	258 969	154 606	68	258 969
Total equity	3 825 518	1 935 158	98	3 450 513
Total equity and liabilities	18 224 921	10 996 792	66	14 439 517

Group income statement

	Unaudited Six months ended August 2011 R'000	Unaudited Six months ended August 2010 R'000	Growth %	Audited Year ended February 2011 R'000
Interest income	1 939 554	1 267 576	53	2 808 543
Interest expense	(450 856)	(353 389)	28	(751 360)
Net interest income	1 488 698	914 187	63	2 057 183
Loan fee income	819 925	607 145	35	1 273 574
Loan fee expense	(96 188)	(59 521)	62	(121 710)
Transaction fee income	590 468	389 321	52	883 040
Transaction fee expense	(229 638)	(154 175)	49	(351 309)
Net fee income	1 084 567	782 770	39	1 683 595
Dividend income	727	540	35	571
Net impairment charge on loans and advances to clients	(678 866)	(403 089)	68	(988 177)
Net movement in financial instruments designated at fair value	6 321	(382)		(210)
Non-banking income	11 003	11 230	(2)	22 258
Sales	104 659	111 903	(6)	219 298
Cost of sales	(93 656)	(100 673)	(7)	(197 040)
Other income	18	2		251
Income from operations	1 912 468	1 305 258	47	2 775 471
Banking operating expenses	(1 182 772)	(873 214)	35	(1 812 499)
Non-banking operating expenses	(11 034)	(11 192)	(1)	(22 672)
Operating profit before tax	718 662	420 852	71	940 300
Income tax expense	(220 966)	(131 126)	69	(284 276)
Profit for the period	497 696	289 726	72	656 024
Earnings per share (cents)				
Basic	518	339	53	757
Diluted	505	325	55	730

Group statement of comprehensive income

	Unaudited Six months ended August 2011 R'000	Unaudited Six months ended August 2010 R'000	Growth %	Audited Year ended February 2011 R'000
Profit for the period	497 696	289 726	72	656 024
Other comprehensive income for the period net of tax	(3 243)	4 957		12 370
Cash flow hedge before tax	(4 504)	6 885		17 181
Income tax relating to cash flow hedge	1 261	(1 928)		(4 811)
Total comprehensive income for the period	494 453	294 683	68	668 394

Reconciliation of attributable earnings to headline earnings

	Unaudited Six months ended August 2011 R'000	Unaudited Six months ended August 2010 R'000	Growth %	Audited Year ended February 2011 R'000
Net profit after tax	497 696	289 726	72	**656 024**
Preference dividend	(9 763)	(6 411)	52	**(15 754)**
Net profit attributable to ordinary shareholders	487 933	283 315	72	**640 270**
Non-headline items				
(Profit)/loss on disposal of				
Property and equipment	1 176	1 002	17	**(638)**
Intangible assets	960	476	102	**476**
Income tax charge	(613)	(413)	48	**60**
Headline earnings	489 456	284 380	72	**640 168**

Group statement of changes in equity

	Unaudited Six months ended August 2011 R'000	Unaudited Six months ended August 2010 R'000	Audited Year ended February 2011 R'000
Equity at the beginning of the period	3 450 513	1 727 977	**1 727 977**
Total comprehensive income for the period	494 453	294 683	**668 394**
Ordinary dividend	(193 837)	(130 308)	**(201 882)**
Preference dividend	(9 763)	(6 411)	**(15 754)**
Employee share option scheme:			
Value of employee services	6 324	5 902	**11 706**
Shares issued and acquired for employee share options at cost	(204 534)	(118 663)	**(131 591)**
Proceeds on settlement of employee share options	31 131	21 184	**23 255**
Tax effect on settlement of share options	46 783	26 161	**27 587**
Shares issued	204 534	114 690	**1 385 386**
Share issue expenses	(86)	(57)	**(44 565)**
Equity at the end of the period	3 825 518	1 935 158	**3 450 513**

Group statement of cash flows

	Unaudited Six months ended August 2011 R'000	Unaudited Six months ended August 2010 R'000	Audited Year ended February 2011 R'000
Cash flow from operating activities	693 663	(322 777)	**(828 232)**
Cash flow from investing activities	(115 288)	(38 578)	**85 169**
Cash flow from financing activities	(172 656)	(119 731)	**1 018 393**
Net increase/(decrease) in cash and cash equivalents	405 719	(481 086)	**275 330**
Cash and cash equivalents at the beginning of the period	2 841 918	2 566 588	**2 566 588**
Cash and cash equivalents at the end of the period	3 247 637	2 085 502	**2 841 918**

Commitments

	Unaudited Six months ended August 2011 R'000	Unaudited Six months ended August 2010 R'000	Audited Year ended February 2011 R'000
Capital commitments approved by the board			
Contracted for	38 935	14 557	29 609
Not contracted for	242 914	184 871	505 768
Operating lease commitments			
Future aggregate minimum lease payments			
Within one year	154 356	115 525	131 058
From one to five years	434 310	299 722	362 795
After five years	84 173	33 364	54 331
Total future cash flows	672 839	448 611	548 184
Straight-lining accrued	(30 088)	(22 381)	(25 354)
Future expenses	642 751	426 230	522 830

Segment analysis

	Banking R'000	Wholesale distribution R'000	Intra-segment R'000	Total R'000
Unaudited six months ended August 2011				
Segment revenue	3 351 223	104 659	(531)	3 455 351
Segment earnings after tax	498 341	(645)	–	497 696
Unaudited six months ended August 2010				
Segment revenue	2 264 990	111 903	(406)	2 376 487
Segment earnings after tax	290 239	(513)	–	289 726
Audited year ended February 2011				
Segment revenue	4 966 768	219 298	(789)	5 185 277
Segment earnings after tax	657 273	(1 249)	–	656 024

The group has two operating segments which conduct business within the Republic of South Africa.

The wholesale distribution segment's contribution to depreciation, amortisation, interest expenses and other non-cash items is not material.

Unaudited interim financial reports

The summarised unaudited consolidated interim financial statements are prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting', the requirements of the Companies Act of South Africa (Act No 71 of 2008), as amended, and the Listings Requirements of the JSE Limited. The accounting policies applied conform to IFRS and the AC500 standards, and are consistent with those applied in the previous year. Standards, interpretations and amendments to published standards applied for the first time during the current financial year did not have any significant impact on the interim financial statements. The group complies in all material respects with the requirements of the King III Code.

The preparation of the summarised unaudited consolidated interim financial statements was supervised by the financial director, André du Plessis CA(SA).

On behalf of the board

Michiel le Roux
Chairman

Riaan Stassen
Chief executive officer

Stellenbosch
28 September 2011

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